

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re: THE IMPERIAL HOME DÉCOR
GROUP, INC., *et al.*,

Debtors.

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Chapter 11
Case Nos. 00-19
Through 00-24 (WSS)

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SETTLEMENT AGREEMENT

This Agreement is entered into by and between the Trustee of the IHDG Litigation Trust ("Trustee") and the United States of America, on behalf of the United States Environmental Protection Agency ("EPA"), on this 10th day of February 2005.

RECITALS

In January 2000, Imperial Home Decor Group, Inc., its Parent Company and its Debtor Subsidiaries ("Debtors") filed petitions for reorganization under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. § 101, et seq., as amended (the "Bankruptcy Code").

On or about July 28, 2000, the United States, on behalf of the Environmental Protection Agency (the "EPA"), filed a Proof of Claim against Imperial Home Decor Group, Inc.

The proof of claim asserted a claim, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 U.S.C. § 9601 *et seq.*, for unreimbursed environmental response costs incurred by the United States at the Solvents Recovery Service of New England, Inc. Superfund Site, located in Southington, Connecticut (the "Site"), and for response costs incurred in the future by the United States at the Site (the "EPA Claim"). The Proof of Claim was asserted as a general unsecured claim. The Debtors filed an objection to the EPA claim. The objection was never resolved.

On March 16, 2001, the Court entered an order confirming the Amended Joint Plan of Reorganization of the Debtors (the "Plan"). The Plan created the IHDG Litigation Trust (the "Trust") to pursue certain of the Debtor's actions, including avoidance actions (the "Unresolved Recovery Actions"). The Plan also requires the Trustee to distribute the net proceeds from the prosecution or settlement of the Unresolved Recovery Actions to holders of allowed unsecured claims, and if the net recovery exceeded \$25 million, also to certain secured creditors. As a result of the Trustee's settlement of Adversary Proceeding No. 01-08804, one of the Unresolved

Recovery Actions, there will be funds available for distribution to the Trust's primary beneficiaries-the unsecured creditors of IHDG.

On October 24, 2005, the Court entered an order granting the Trustee authority to settle and prosecute the claim objections in order to facilitate the distribution process under the Trust Agreement.

Pursuant to his authority, the Trustee has negotiated a settlement of the EPA claim and the Debtors' objection. Under the settlement, the United States will receive a distribution as a Class C4 creditor.

The amount of the actual cash received and net cash realized from other distributions or consideration on account of the allowed EPA Claim (and only that amount) shall be credited by EPA to the SRSNE Superfund Site Special Account within the EPA Hazardous Substances Superfund. The Trustee takes no position regarding this paragraph.

The parties hereto, without admission of liability by any party, desire to settle, compromise and resolve the EPA Claim; and

THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration receipt of which is hereby acknowledged;

IT IS HEREBY STIPULATED and agreed to by and between the parties hereto, subject to approval by the Bankruptcy Court, as follows:

1. The EPA Claim shall be allowed as an Unsecured Claim in the amount of \$919,705, and paid as a Class C-4 Unsecured Claim without discrimination in accordance with the terms of the Debtor's Plan of Reorganization, dated January 31, 2001, and the United States will be deemed to have withdrawn the EPA Claim for any amount in excess of \$919,705.

2. Payment on the EPA Claim shall be made by Electronic Funds Transfer ("EFT" or wire transfer) to the U.S. Department of Justice lockbox bank, referencing CERCLA Number 0 1-08 and U.S.A.O. file no. _____, in accordance with instructions provided by the United States to the Trustee after entry of an order approving this Settlement Agreement. Any EFTs received at the U.S. D.O.J. lockbox bank after 11:00 A.M. (Eastern Time) will be credited on the next business day.

3. The Trustee covenants not to sue and agrees not to assert any claims or causes of action against the United States with respect to the Site, including but not limited to: any direct or indirect claim for reimbursement from the Hazardous Substance Superfund, any claims for contribution against the United States, its departments, agencies or instrumentalities, and any claims arising out or response activities at the Site. Nothing in this Settlement Agreement shall

be construed to constitute preauthorization of a claim within the meaning of Section 111 of CERCLA, 42 U.S.C. § 9611 or 40 C.F.R. § 300.700(d).

4. This Settlement Agreement will be lodged with the Bankruptcy Court and submitted for public comment following notice of the Settlement Agreement in the Federal Register. The United States reserves the right to withdraw or withhold its consent if the public comments regarding the Settlement Agreement disclose facts or considerations which indicate that the Settlement Agreement is inappropriate, or improper, or inadequate. Provided that the United States does not withdraw or withhold its consent, the Settlement Agreement will be submitted for Bankruptcy Court approval pursuant to Bankruptcy Rule 9019.

5. If this Settlement Agreement is not authorized and approved by the Bankruptcy Court, this Settlement Agreement shall be of no force and effect, whereupon nothing herein shall be deemed an admission of any fact or waiver of any right of either party with respect to the matters contained herein.

6. This Settlement Agreement represents the complete agreement of the parties hereto on the matters referred to herein and supersedes all prior agreements, understandings, promises and representations made by the parties hereto concerning the subject matter hereof. This Settlement Agreement may not be amended, modified or supplemented, in whole or in part, without the prior written consent of the parties hereto and the approval of the Bankruptcy Court.

FOR THE UNITED STATES OF AMERICA:

Date

SUE ELLEN WOOLDRIDGE
Assistant Attorney General
Environment and Natural Resources Division
U.S. Department of Justice

Date

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{SIGNATURES CONTINUED ON NEXT PAGE}

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1/31/06
Date

ROBERT W. VARNEY
Regional Administrator
U.S. EPA - New England

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Date

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INDG LITIGATION TRUST

Date

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